



REPORT

Report Date: May 27, 2020
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VanRIMS No.: 08-2000-20
Meeting Date: October 7, 2020
[Submit comments to Council](#)

TO: Standing Committee on Policy and Strategic Priorities
FROM: General Manager of Engineering Services
SUBJECT: Village Farm Landfill Gas Utilization Agreement Extension

RECOMMENDATION

- A. THAT Council authorize staff to negotiate to the satisfaction of the General Manager of Engineering Services, the Director of Legal Services, the Director of Finance, and the Chief Procurement Officer and enter into a contract with Village Farms International Inc. (Village Farms), for the City to continue to supply landfill gas to Village Farms for beneficial use, for a term of 20 years, with an estimated revenue to the City of \$400,000 annually. The agreement also has an option to extend the contract for another five (5) year term.
- B. THAT the Director of Legal Services, Chief Procurement Officer and General Manager of Engineering Services) be authorized to execute on behalf of the City the contract contemplated by Recommendation A.
- C. THAT no legal rights or obligations will be created by Council's adoption of Recommendations A and B above unless and until such contract is executed by the authorized signatories of the City as set out in these Recommendations.

REPORT SUMMARY

The City and Village Farms have come to an agreement on a Term Sheet that has guided the negotiations for an extension of the existing contract between the City and Village Farms for the City to supply landfill gas for beneficial use, minimizing greenhouse gas emissions at the Landfill. A Notice of Intent to Contract ("NOITC") was advertised on the City's website and BC Bid) on February 21, 2020 and no objections or concerns were raised.

Bid Committee has therefore recommended that Engineering Services, Supply Chain Management and Legal Services negotiate the final terms of the agreement, under the authority of the City's Procurement Policy ADMIN-008 provided that such contract shall not be entered into until it is also approved by Council, as required by such policy.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

The City's Procurement Policy ADMIN-008 requires that contracts with values over \$2 million must be approved by Council following review and recommendations by the Bid Committee. The Bid Committee has recommended Village Farms as the successful proponent after no objections were received to the posting of an NOITC. There is no applicable Council Authority or previous decisions relevant to this report.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager recommends approval of the foregoing.

REPORT

Background/Context

Village Farms is one of the largest and longest operating, vertically integrated greenhouse growers in North America and the only publicly traded greenhouse produce company in Canada. The Village Farms facility in Delta primarily grows tomatoes and recently converted a portion of their crop to cannabis.

The City and Village Farms have a long standing (20 year) contract for the City to provide landfill gas from the Vancouver Landfill for beneficial use through combined heat and power generation at the Village Farms facility in Delta. The current agreement expires in 2023.

Village Farms approached the City to extend the current landfill gas supply agreement in order for them to develop a facility to produce renewable natural gas (RNG) for delivery to the FortisBC natural gas distribution network. The existing infrastructure to supply the City-collected landfill gas to Village Farms, including blowers and pipeline, is already in place and would be upgraded and modernized as necessary. Once an agreement with the City to supply gas has been reached, Village Farms will be able to finalize the financing terms and proceed with development of their project.

Strategic Analysis

An NOITC (PS20200238) was issued in the accordance with City's Procurement Policy ADMIN-008 and no objections or concerns were raised.

Historically, Village Farms has used approximately 60% of the gas collected at the Landfill for a combined heat and power facility with the remainder being flared. Moving forward Village Farms intends to replace the existing facility with a new RNG facility. The contract extension is for 20 years of gas supply.

In 2019, the BC Utilities Commission approved a contract between the City and FortisBC to develop a facility to take most of the gas currently flared and produce RNG. The agreement between the City and FortisBC is also for the supply of available gas for 20 years. The City will thus benefit from being able to supply gas to two new RNG facilities owned and operated separately by Village Farms and FortisBC, allowing the City to maximize gas utilization and providing a degree of redundancy if one of the two facilities has to shut down for any period.

One important consideration in both agreements is that post Landfill closure, the amount of methane in the gas as well as the overall amount of gas generated will start to decline. The City is being transparent with both Village Farms and FortisBC regarding long term uncertainty of gas supply so that they can plan and size their facilities appropriately. Timing of landfill closure is specified in inter-municipal agreements between Vancouver, Delta and Metro Vancouver. There are volume and date requirements for closure with the latest closure date currently set for 2037. Should the volume of waste delivered to the site since 1999 reach 20 million tonnes prior to 2037 that could drive closure earlier than 2037.

Since there is long term risk around the amount of gas generated, particularly in the later years of the Village Farms contract, there are review periods after 10 and 15 years to re-assess quality and quantity of gas. Consistent with the existing FortisBC contract, the proposed contract extension does not create any liability for the City to Village Farms in relation to gas supply or quality.

Implications/Related Issues/Risks

Financial

The contract with Village Farms is expected to generate in the range of \$400,000 per year in revenue to the City for the sale of the gas.

Environmental

Currently the Village Farms gas utilization facility burns raw landfill gas in the boilers to produce heat and power. Raw landfill gas contains approximately 50% Methane; the remainder is Carbon Dioxide, Nitrogen, Oxygen, Hydrogen Sulphide and other trace compounds. Production of RNG removes the other materials to increase the methane content to 98% or more. The RNG can then be used to replace natural gas as a fuel source in the FortisBC gas network. RNG is considered to be carbon neutral.

Carbon Credits: The City will continue to retain carbon destruction credits for the methane destroyed while other credits for displacement other of fuels will accrue to Village Farms and are outside the scope of the contract with the City. Within a current BC Government framework, carbon destruction credits kick in once the gas recovery percentage exceeds the provincial target for gas recovery of 75%. The City continues to develop new infrastructure for gas collection as the landfill is filled, and maintains and upgrades aging infrastructure as needed. Due to ongoing construction works and requirements to shut down portions of the system to connect new piping the collection efficiency of gas at the Landfill this year sits at just over 68%. Once construction and upgrades are completed, the 75% target is expected to be exceeded.

Legal

Subsequent to the NOITC and rather than negotiate an entirely new agreement with Village Farms, the preferred approach is an amendment to the existing agreement to extend the term of the contract, keeping the majority of the contract in place and updating some of the terms and conditions to reflect things that have changed over the last 20 years. This keeps in place key conditions that reflect the ongoing relationship between the parties while adapting to current conditions.

The City's Procurement Policy requires that all contracts that have been awarded by Bid Committee and Council will be signed by the Director of Legal Services.

CONCLUSION

In summary, City staff recommends that the City negotiate and makes amendments to the existing Landfill Gas Supply contract with Village Farms to extend it for an additional 20 year term, with the option to extend the contract for an additional five (5) year term.

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